# Report

of the

# House Interim Committee

on

# Employee Health Care

# Contributions

December 22, 1999

TO THE SPEAKER

OF THE

HOUSE OF REPRESENTATIVES

OF THE

NINETIETH GENERAL ASSEMBLY

OF THE

STATE OF MISSOURI

Your House Interim Committee on Employee Health Care Contributions begs leave to submit the following report:

Mary Hagan-Harrell

Representative Mary Hagan-Harrell, Chair

Representative T. Mark Elliott

Jerry King

Representative Jerry King

Representative Denny Merideth

Representative James O'Toole

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## COMMITTEE MEMBERS

Representative Mary Hagan-Harrell, Chair

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Representative James O'Toole

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## I. Committee Activities

The House Interim Committee on Employee Health Care Contributions met in Jefferson City on September 16, October 18 and 19, November 15, and December 8, 1999. The September meeting was short and organizational in nature, with members briefly discussing their expectations of the work of the Committee. The October 18 afternoon meeting gave interested agencies, such as the Missouri Consolidated Health Care Plan (MCHCP), Missouri State Employees' Retirement Plan (MOSERS), and the departments of conservation and transportation an opportunity to offer their ideas in a discussion of employee health care contributions. The October 19 morning meeting heard testimony from retired individuals about their problems with maintaining health insurance while on a fixed income.

The November 15 meeting was a discussion meeting, in which MCHCP presented the fiscal implications of a reward-for-service-based graduated fee system with a higher level of state subsidy for employees the longer they have worked for the state. At that meeting, the Committee decided in general terms the direction they wanted the Committee report to take and asked the departments of conservation and transportation to provide similar fiscal scenarios in order to compare potential costs. Committee members received a draft of the report the week before the December 8 meeting; the draft was being drawn up while the conservation and highway departments were gathering information about the financial impact of a graduated employee contribution on their own health care systems.

At the December 8 meeting, the Committee discussed the financial aspects of graduated retiree contributions on all three health care systems and made editorial changes to the draft report.

## II. Committee Vision Statement

The House Interim Committee on Employee Health Care Contributions believes that state employees are entitled to fair benefits. "Fair" means equitable treatment across departments, benefits that are stable as far as a volatile health care market will permit, and a level of benefit that permits a dignified retirement. Fairness also involves treating retired employees, current employees, as well as future employees, consistently. Ultimately, the quality of life for all older Missourians is a state concern, and consideration for health care for this vulnerable population is crucially important.

## III. Findings

### A. Background on the issue:

1. **Availability of good health benefits affects the timing of retirement.**
The availability of affordable health care plays a large part in the timing of the decision to retire. Currently, with the Missouri Consolidated Health Care Plan (MCHCP) 1999 subsidy level of 34% for retired Missouri State Employee Retirement System (MOSERS) employees, a sizable percentage of retirees have dropped their health care coverage as simply too expensive.

2. **Health care costs bear disproportionately on employees in lower-paying jobs.**
This is especially true after retirement, with retirement benefits keyed not only to longevity but also to salary level. And further, for older retirees who may have been long-term employees at a time when state salaries lagged significantly behind the private sector, health care costs are a burden that occasionally reaches a dilemma of "Do I buy food or do I buy medicine?"

3. **Most employers require retirees to bear at least some part of health care costs.**
Missouri is consistent with a majority of other large employers who require retirees over 65 to pay an insurance premium. The percentage of employers requiring a retiree-paid premium has grown from 72% in 1991 to 88% in 1996, illustrating the extent and strength of the trend. Even with the possibility of having a higher percentage of MCHCP subsidy for retired employees in future years (projected percentage for 2000: 47%), the level of subsidy will necessarily rise and fall with the health of the economy.

4. **Health care insurance costs are increasingly difficult to predict and keep stable.**
Health care costs are among the more volatile elements of the economy, being prone to shorter business cycles and thus harder to predict at mid- to long-range than other elements in setting a budget. Overall, health care costs drive the cost of health insurance premiums, which is the concern of this Committee. The days of a five-year contract with providers at a fixed rate are over. Retirees justly feel anxious about the possibility of continuous change in the level of health care expenditures they will have.

### B. Desirable characteristics of a health care benefit system, especially in relation to retired employees:

5. **Alignment with existing state policy on benefits.**
Any provision made to alleviate problems of state-employed retirees and potential retirees should ideally align with the goals stated by the Governor's Task Force on Total Compensation and the Commission on Management and Productivity (COMAP). At this writing, these entities have been focused on getting the state's pay plan and retirement plan revised and funded. Benefits are within their purview, and the House Interim

Committee on State Employee Health Contributions wants to focus attention on the as-yet relatively unresolved issue of health care benefits.

One recommendation of the Workforce Issues Task Force asserts the need to "adopt a common philosophy for the State's contribution to employee premiums under all plans." This recommendation calls for a split of 80% state and 20% employee on costs and a legislative resolution of intent to establish the common philosophy as a state policy. The Committee endorses the policy of a common philosophy for State contributions and believes that an 80/20 split is an achievable goal for the entire system, but recommends a slightly different approach for the cost split for retired employee benefits, as outlined below in paragraph 6.

6. **Reward consistent with length of service.**
The committee believes that a solution that rewards employees for longevity is preferable to a one-size-fits-all solution. Among large employers, 27% require retiree contributions that vary based on years of service versus 39% requiring the same contribution from all retirees, as Missouri does now. Such an approach demonstrates the value the State places on continued service and helps to further reduce the benefit gap between higher paid and lower paid employees.

7. **Simplicity, simplicity, simplicity.**
A solution to the problem of health care contributions needs to be easily understandable and equitable to employees at all salary levels. It should not overcommit state resources in periods of economic downturn or create additional levels of bureaucracy.

8. **Equity across departments.**
Because Missouri state retirees access their health care through three major plans which do not currently provide the same levels of support for retiree health care, an important step towards a coordinated state benefit system will be accomplished when the retiree health care contribution levels are made consistent. The Committee believes that consistency is so important it must be an explicit policy of the state. The Committee endorses the recommendation of the Workforce Issues Task Force which asserts the need to "review and modify existing health benefit plans, measured against a set of common principles and policies of managed care that would apply to all plans."

9. **Equity across levels of pay.**
Access to health care through equitable insurance benefits means that no difference exists in the quality of care available to the lowest paid employees and the highest paid. Given the different methods of health care delivery, differences in the directness of an employee's access to a desired service may exist.

## C. Policy considerations:

10. **Statutory solution versus negotiated solutions.**
When crafting a solution to a problem such as the one addressed by this interim committee, legislators must reflect on the merits of putting a solution permanently into statute versus achieving a solution without amending state law. Especially in dealing with a population as vulnerable as retirees, legislators must be sensitive to the idea that retirees may view themselves as hostages to the benevolence of a board of trustees. It is difficult to trust your well-being to promises of continued consideration, however sincere the promises may be.

On the other hand, legislators must also consider that putting a very specific remedy into statute in a field that is changing as rapidly as health care could result in unpredictable outcomes. Ideally, any acceptable solution would recognize that the health care needs of retirees should be a priority, thus providing a level of assurance to retirees, while sending the message to agency boards and commissions that very specific legislative action could result if retirees' needs do not receive serious attention on an on-going basis.

11. **Flat rate versus percentage.**
Flat-dollar amounts are easy to understand and calculate but, in an era of rapidly rising costs, could leave retirees unprotected. The opposite end of the spectrum, a formula approach with a specified percentage, may result in unpredictable levels of financial liability for the state, given the volatility of the health care marketplace. Presumably, a negotiated formula solution would provide the flexibility in changing factors of the formula as necessary to meet both employee/retiree expectations and the rapidly changing conditions of the health care marketplace. It would be possible to direct in statute that a formula approach recognizing years of service be adopted without specifying individual factors.

12. **Do expectations constitute a contract or a moral obligation?**
Expectations color individuals' perceptions of benefits as adequate or inadequate. A higher subsidy for even one year creates a ripple effect in expectations: Will we always get this level? If we don't, do other factors offset a lower level of subsidy? Is there a floor below which we can be confident the subsidy will not fall? Currently, the level of subsidy is not a contractual matter, although employees and retirees harbor expectations based on past performance. The Committee believes that expectations create a sense of obligation on the part of the state to meet them, even though those expectations are not legally binding. A conscientious government will clarify those expectations by making clear, concise and on-going communication with its employees and retirees about their benefits a high priority, clearly identifying its commitments and trying to meet expectations.

## D. Financial implications:

13. **Review of financial scenarios.**
At the request of the Committee, MCHCP and the departments of conservation and transportation each drew up three scenarios with varying percentages of subsidy that address contributions based on years of service. The Committee understood that the figures derived from the scenarios could change very quickly and did not choose a particular set of percentages to recommend.

In two of MCHCP's three scenarios, given their initial assumptions, the state enjoys a small savings compared with projected costs. Similar scenarios for the conservation department would bring an additional annual cost to the department of $154,000 to $174,000. For transportation and Highway Patrol, the additional costs range from $3.9 to $4.3 million. An alternative projection, prepared by an individual for transportation, shows an additional state cost of $3.6 million with a savings of more than $1 million to retirees.

It is clear that the state cannot bear 100% of all insurance costs, and it is equally clear that supporting retirees' subsidies by reducing active employees' subsidies is not an acceptable solution over the long run.

14. **Funding.**
One of the fiscal assumptions concerning progress towards market rate salaries for state employees is that future funds may become available once market rate salaries are achieved. Ancillary benefits such as health care, which are part of the total compensation package, could then be improved. It is a priority of the Task Force on Total Compensation to achieve its goals without increasing costs to taxpayers in the future. The Committee recognizes that this may be a difficult goal to accomplish, partly because the budget process does not specifically recognize future costs for current active members on a department-by-department basis. Retirement benefits are prefunded, but health care is a pay-as-you-go proposition.

15. **Fairness issues.**
The Committee has great concern for fairness in implementing any new proposal. In this case, the issue of fairness has two distinct aspects: expectations set by previous levels of subsidy and how current retirees, active state employees, and future employees are affected by any change. It would be unconscionable to subject current retirees to large fluctuations in the level of subsidy, assuming the economy is healthy. The preferred approach is to pick a future starting date and state clearly that employees hired after that date will receive the new benefit. The question then arises--how do we treat current benefit recipients who hired on under a different set of assumptions? Current employees may be grandfathered. The latter approach has the drawback of creating arbitrary classes

of employees by employment date and can create administrative problems. The recent MOSERS change was a fortunate example of being able to combine both approaches.

16. **Broader concerns.**
The Committee, in addressing the narrower charge it was given, maintains a larger concern as well. Missouri's senior citizens, along with the children of the state, constitute its two most vulnerable populations, whose access to health care must be safeguarded. Lessening the burden of health insurance costs for all Missouri seniors provides a fitting symmetry to an arc whose beginning has been accomplished in recent years by legislation broadening children's access to health care and addressing other concerns of early childhood. Similarly, the issue of caregivers for both children and the elderly has begun to be addressed. The state of Missouri surely has the potential to provide both a healthy beginning and a dignified retirement for its citizens.

## IV. Recommendations

**A. Do as much as possible without statutory changes and do so in a timely fashion.**
Virtually all of the ideas emphasized by the Committee in the "Findings" section of this report are achievable without legislative action. However, the Committee believes that certain actions would be more likely to be accomplished quickly if encouraged by resolution. Accordingly, the Committee proposes the filing of a resolution requesting the Governor to direct the Task Force on Total Compensation to take up the issues addressed in this report and to report back their recommendations by November 15, 2000. Presumably, these issues are important enough that a new session of the General Assembly and a new Governor will want to pursue them.

**B. Agency boards and commissions should phase-in new benefits but help long-term retirees quickly.**
Retired employees, particularly those who retired several years ago, need substantial improvement in meeting the cost of their health insurance benefits in the next two years. While a rising tide of market-level salaries will eventually help retirees, those who retired 10 or 15 years ago cannot wait for help. Agency boards and commissions could begin to address this issue now.

**C. Agency boards and commissions should position themselves to implement a reward-for-service graduated insurance premium for retirees as state government moves towards a consistent benefits policy.**
The Committee believes that it is possible to maintain separate health care systems for state employees and achieve benefit consistency across departments.

**D. Give further study to methods of funding retiree health care.**
The Committee initially looked at several employee-employer matching contribution medical cost account plans. Those plans have great potential for the future when state salaries are at market rate so that an employee could afford to make a contribution. These

ideas deserve further study. The Committee recommends that the House and Senate establish a joint committee to research them.